MANOR CARE HEALTH SERVICES-ALEXANDRIA
ALEXANDRIA, VIRGINIA

This Settlement Agreement (hereafter known as the Agreement) is entered into this 5th day of February, 2004 by and between the United States of America, including the United States Attorney's Office for the Eastern District of Virginia, (collectively, "United States"); the Medicaid Fraud Control Unit ("MFCU") of the Office of the Attorney General and the Department of Medical Assistance Services ("DMAS") on behalf of the Commonwealth of Virginia (collectively, the "Commonwealth of Virginia"); and Health Care Retirement Corporation of America d/b/a Manor Care Health Services-Alexandria (formerly known as Oak Meadow Nursing Home) in Alexandria, Virginia ("MCHS"). The above sovereigns and entities are referred to herein as "the Parties."

PREAMBLE

A. WHEREAS, MCHS, located at 1510 Collingwood Drive, Alexandria, Virginia 22309 is a skilled nursing facility engaged in the provision of health care services to Medicare and Medicaid beneficiaries;

B. WHEREAS, the United States Attorney's Office for the Eastern District of Virginia and the Commonwealth of Virginia (collectively referred to as "the Governments") conducted an investigation arising under the federal civil False Claims Act, 31 U.S.C. §§ 3729-3733 and Virginia's civil Medicaid Fraud statutes, pursuant to Virginia Code Annotated §32.1-312 and §32.1-313. As a result, the Governments contend that, during a period from January 1,1997 to December 31, 2002, certain residents identified in the Subpoena Duces Tecum dated September 25, 2001 experienced care which did not meet statutory required standards as set forth in 42 U.S.C. § 1395i-3;

C. WHEREAS, the Governments allege that the above conduct resulted in damages to the Medicare and Medicaid health care programs, in that the Governments contend that the care provided was not in compliance with all existing regulations and standards;

D. WHEREAS, MCHS has taken certain executive actions designed to provide

adequate care to all residents, as more fully described in paragraph one(1), below;

E. WHEREAS, the Parties by agreement engaged two gerontological Nursing/Long Term Care Consultants (the "Consultants") designated by the U.S. Department of Justice to evaluate the services provided by MCHS against generally accepted standards of clinical practice, including the environment, medical services, nursing services, clinical management systems, corporate compliance and quality assurance/improvement programs, and

F. WHEREAS, the Consultants conducted said evaluation over a two-day period, including residents, chart audits, observation of care and interviews with residents, and concluded in their comprehensive report that MCHS substantially meets the generally accepted standards of care and does not require the surveillance of an outside monitor;

G. WHEREAS, MCHS in entering into this Agreement does not admit that the care provided was inadequate, and further denies any wrongdoing, inadequacy or liability in regard to the care rendered to any resident of MCHS; moreover, this Agreement may not be used to establish liability in any other proceeding;

H. WHEREAS, the Parties wish to resolve this matter in an amicable manner without the need for protracted and expensive litigation;

I. WHEREAS, the Parties agree that this Agreement does not constitute and shall not be construed as an admission of any liability, inadequacy or wrongdoing on the part of MCHS, currently or formerly employed officers, agents, and employees of any of the foregoing, and may not be used as evidence of such in any proceeding by either the Governments or any third party.

NOW THEREFORE, for and in consideration of the mutual covenants and conditions contained herein and other good and valuable consideration, the Parties, intending to be legally bound, enter into the following Agreement:

OBLIGATIONS UNDER THE AGREEMENT

1. MCHS represents that over the past two years MCHS has taken certain executive actions designed to enhance the quality of care to residents of the facility. These measures

include, but are not limited to: hiring new management, including a new Administrator, Director of Nursing and Assistant Director of Nursing; engaging nursing staff to eliminate the continuing need for agency nursing personnel; enhancing quality assurance training; engaging management and gerontological consultants; providing living space enhancements; purchasing equipment to improve resident care; and continuing to implement professionally based policies and procedures designed to deliver appropriate nursing care to all residents. These enhancements have included; but are not limited to, installing a secure care system to prevent resident elopement; purchasing specialized pressure-reducing mattresses; installing a new phone system to facilitate resident communications ; and installing a canopy on the patio to maximize resident use of the patio, all of which are designed to ensure the provision of adequate care to the residents of the facility.

2. (a) MCHS agrees to deposit $151,200 in a separate escrow account (hereinafter, the "Escrow Account") no later than 30 (thirty) days after the execution date of this Agreement, the proceeds of which shall be used expressly for expenses associated with the remedial measures identified in this Agreement, including quality of care improvements, consultants, approved capital expenditures, expenditures to enhance living space, and other compliance requirements set forth in this Agreement. The initial and continuing costs of additional staff, other than itemized below, are independent of the funds allocated to this fund; funds from this account shall not be used for such costs. The funds in the Escrow Account shall be expended as follows:

Item Description	Approx. Cost
Nurse practitioner salary (.5 FTE)	$ 45,000
Training by Dr. Iris Parham, Virginia Commonwealth University and her staff in assessments, reduction in meds/chemicalrestraints and other issues of gerontological care	30,000
Portable steam table (1)	26,000
High/low beds (approx. 17)	17,000
Sit-to-stand lifts (2)	12,000

Aviary	3,200
Renovating the activities room	13,000
Computers for two nursing units, including printers (to facilitate drafting and updating of the MDS and other nursing functions)	5,000
TOTAL	$ 151,200

(b) The parties agree that the law firm of Reed Smith, 1301 K Street, N.W., Washington, D.C. 20005, which shall act as the dispersing agent for these funds, shall maintain the Escrow Account.

(c) Any unused funds in the Escrow Account shall be returned to MCHS to use for whatever the facility deems appropriate to improve resident care and quality of life after all of the items in paragraph (2)(a) have been received and paid for.

3. During the term of this agreement, MCHS agrees to provide quarterly status reports to those persons listed in paragraph ten (10) of the amounts expended by the facility from the Escrow Account to implement the requirements of this Agreement, with the first such status report being due thirty (30) days after the execution date of this Agreement. Such reports shall continue every three months thereafter until all such requirements have been fully implemented. MCHS's Administrator shall certify the status reports. MCHS shall provide such supporting documentation as is requested by the Governments upon request. Furthermore, the corporate consultant specified in paragraph (6) may make recommendations for further expenditures for specific items and activities beyond those explicitly set forth in this Agreement and shall be considered in good faith by MCHS.

4. MCHS agrees to implement the ten (10) recommendations made by the outside gerontologic Nursing/Long Term Care Consultants contained in their report dated July 15, 2003, incorporated herein as Exhibit A in accordance with HCR Manor Care's programs and MCHS' ongoing quality improvement plan.

STAFFING, TRAINING, and CARE IMPROVEMENT MEASURES

5. MCHS shall ensure that the facility is staffed with a sufficient number of qualified

staff to fully meet the needs of residents as set forth in their comprehensive care plans. All staff shall be deployed throughout the facility in a manner designed to ensure that the individual needs of residents are met.

6. In addition to the expenditures described in paragraphs one (1) and two (2), MCHS agrees to ensure that a corporate consultant selected at its discretion will spend at least three (3) days monthly at MCHS for the nine months after the execution date of this Agreement, and as deemed necessary thereafter, for the purpose of monitoring timely implementation of the requirements of this Agreement. The Parties have identified the corporate consultant as Ms. Vicki Crenshaw ("Ms. Crenshaw"), and agree that she will be available to give timely advice to facility administrators and staff with respect to providing enhanced living space for residents, measures designed to prevent falls, development and recurrence of pressure sores, timely identification of changes in medical conditions requiring intervention, appropriate medication administration and treatment, timely and adequate pain management, adequate nutrition and provision of reasonable personal hygiene measures. The facility shall maintain documentation to verify these consultations.

7. MCHS agrees that the Director of Nursing will continue to monitor resident falls, pressure sores, medical interventions following changes in the medical condition of residents, appropriate medication administration and treatment, timely and adequate pain management, and adequate nutrition and hygiene to ensure timely and effective steps are taken to prevent problems or deficiencies in these areas.

GERONTOLOGICAL CONSULTANT, CARE IMPROVEMENT MEASURES, and VERIFICATION

8. In addition to other provisions of this Agreement, MCHS agrees to retain a gerontologic consultant, Dr. Iris Parham ("Dr. Parham"), who will provide gerontologic education at MCHS, focusing on the areas described in paragraph six (6) above, and make written recommendations to the corporate consultant and management officials at MCHS as to areas of care requiring improvement. Dr. Parham shall tour MCHS within thirty (30) days of the date of this Agreement

and make recommendations within fifteen (15) days thereafter. Dr. Parham will also review the site visit report attached as Exhibit A, referred to in paragraph four (4), to review the ten (10) recommendations made by the Consultants for purposes of planning and conducting her training programs.

9. To verify satisfactory implementation and continued efficacy of the health care delivery system, Ms. Crenshaw shall visit MCHS as set forth in paragraph (6), and upon completion of each visit, make written recommendations deemed appropriate. At the completion of nine months, Ms. Crenshaw shall provide an exit interview to appropriate officials of MCHS and prepare a written report confirming the expenditures made pursuant to paragraph (2) and implementation of the ten recommendations referenced in paragraph (4) to verify compliance with this Agreement.

10. Ms. Crenshaw shall deliver the nine-month report referenced in paragraph nine (9) to the Parties to this Agreement by delivering a copy to the following named persons (or his or her designee) via electronic mail or facsimile, and USPS regular mail, or such other method of delivery agreed upon by the Parties.

Constance H. Frogale
Assistant United States Attorney
United States Attorney's Office
Eastern District of Virginia
2100 Jamieson Avenue
Alexandria, VA 22314
Fax: (703)299-3983

Administrator
Manor Care Health Services-Alexandria
1510 Collingwood Drive
Alexandria, VA 22309
Fax: (703) 768-6344

Carol Loepere, Esquire
Reed Smith LLP
1301 K Street, N.W.
Suite 1100 – East Tower
Washington D.C. 20005
Fax: (202) 414-9299

11. MCHS will provide each resident with adequate skin care, nutrition, turning and

positioning and other services to decrease the likelihood of skin breakdown and the development of pressure sores. MCHS, its agents, employees, contractors, and/or subcontractors agree to abide by the provisions of the Clinical Practice Guidelines for the Prediction, Prevention and Treatment of Pressure Ulcers ("Guidelines") promulgated by the Agency for Health Care Policy Research, now known as the Agency for Healthcare Research and Quality ("AHCPR"); specifically, *Pressure Ulcers in Adults: Prediction and Prevention, Clinical Practice Guideline Number* 3, *92-0047* (May 1992) and *Treatment of Pressure Ulcers, Clinical Practice Guideline Number 15,95-0652* (December 1995) available at http://www.ahcpr.gov or more current guidelines on treatment of pressure ulcers as referenced by the Centers for Medicare & Medicaid Services ("CMS") (collectively, "the Guidelines"). MCHS will use the Guidelines as a basis to establish MCHS's individualized care plans for skin and wound care for residents. MCHS shall implement protocols and procedures for skin and wound care that reflect the standards set forth in the Guidelines.

12. MCHS agrees to implement and/or maintain a nutritional monitoring program for residents that will fully meet their nutritional needs and preferences. This will include, at a minimum, implementation of and compliance with the Standards of Practice and Practice Guidelines for "Medical Nutrition Therapy for Pressure Ulcers/Wounds, "Weights-Monitoring of," and "Weight Committee" which are available to the Governments upon request. Clinical decisions shall be based on an individualized evaluation of the resident's nutritional needs. In addition, MCHS shall continue to check the weight of residents at appropriate intervals, ensure that all residents are properly assisted by staff with feeding where needed, and ensure food is served at appropriate temperatures.

13. MCHS will implement and/or maintain a monitoring program for falls that will properly assess residents' needs in their care plans and will provide adequate supervision and assistance to prevent falls. This will include, at a minimum, implementation of and compliance with the appropriate standards of practice and guidelines for falls and fall prevention. To this end, MCHS shall have a suitable number of "high/low" beds or procure them as needed; procure

mats and place them throughout the facility as appropriate to mitigate the impact of unavoidable falls by residents; and procure and utilize safety equipment and assistive devices, as indicated. MCHS will also assess residents for falls/injury risks; develop plans to prevent falls/injuries based on fall/risk assessment; and, properly report/record falls on the residents' MDS documentation. Further, if a resident falls, proper personnel shall conduct an assessment to determine the cause(s) of the fall and revise the care plan as needed.

14. MCHS shall implement and/or maintain a suitable protocol for timely and appropriate medical interventions to ensure that all patients' medical conditions are properly monitored and any changes in medical condition will be promptly identified and acted upon in a timely manner. MCHS shall also ensure that all physician ordered laboratory tests are timely performed and all follow up treatments are promptly and consistently performed. To this end, MCHS will utilize the services of its nurse practitioner to evaluate all unplanned resident transfers to hospitals and all unexpected resident deaths in accordance with MCHS' standard operating procedures and form(s) on at least a monthly basis. MCHS agrees to implement any recommendations that the nurse practitioner may make in this area of evaluation. MCHS will also ensure timely and effective communication with residents' physicians, and ensure timely notification to resident physicians and family members when there is a significant change in a resident's condition or resident injuries. For specialized care residents, MCHS shall implement a protocol to ensure that MCHS shall promptly and consistently update resident care plans to reflect the resident's current medical condition and treatment.

15. MCHS agrees that effective pain management will be timely offered and administered to all residents in need of medication or other treatment for pain in accordance with all applicable statutes and regulations. To this end, MCHS has implemented a Pain Management Program which it will follow to ensure effective pain management protocols, a copy of which has been provided to the Governments.

16. MCHS shall ensure that all medication is timely distributed by nursing staff consistent with contemporaneous professional standards and techniques, and where a physician

order is required for medication, that medication is administered after appropriate receipt of such order(s) in accordance with all applicable statutes and regulations. For quality control checks in this area, MCHS will ensure that a pharmacy consultant will perform quarterly audits on each nursing unit to ensure all resident medications are: 1) administered on time; 2) administered in the proper dosage increments; and 3) provided via the correct route using correct professional techniques.

17. MCHS will provide appropriate and timely care to residents with specialized needs, and MCHS will ensure that there will be adequate and qualified personnel to meet these special needs. For quality control checks in this area, MCHS, utilizing the services of its Director of Nursing and/or nurse practitioner, will perform periodic audits on each nursing unit to ensure all residents' treatments for their special needs are performed on time and performed using professionally accepted medical techniques.

18. MCHS shall ensure timely and accurate updates to resident care plans in order to ensure timely and effective resident care. MCHS will also ensure that reasonable personal hygiene measures are timely afforded to all residents in accordance with all applicable statutes and regulations.

19. MCHS will provide professionally based mandatory in-service training in all areas described in paragraphs eleven (11) to eighteen (18) above. All dietary, clinical management, and nursing staff at MCHS shall attend the in-service training as is appropriate for their discipline and level of job responsibilities. Thereafter, this training and such other appropriate professional development and compliance training for the skill areas designated in paragraphs eleven (11) to eighteen (18) shall be provided in accordance with the Compliance Program referenced in paragraph twenty-one (21). All new dietary, clinical management, and nursing staff at MCHS shall be trained in the areas described in paragraphs eleven (11) to eighteen (18), as appropriate for his or her discipline, within twenty (20) calendar days of the employee's commencing employment with MCHS. MCHS will at all times maintain a comprehensive long term training program for all dietary, clinical management, and nursing staff at MCHS to ensure

that each is knowledgeable and competent to perform all assigned duties. MCHS agrees to continue to implement professionally based orientation, in-service, and other training programs for staff.

RECORDS

20. MCHS will continue to enforce policies requiring that all professional standards relating to the proper means of entering and, where necessary, changing information in a medical record be strictly adhered to. MCHS shall train its staff that falsification or improper alteration of any resident record and other document related to resident care is forbidden. MCHS shall obtain from each employee a signed statement indicating that the employee understands the policy forbidding any falsification or improper alteration, the appropriate manner in which to make entries into medical records and, should a change be necessary, the acceptable means of documenting the changes and the reasons therefore. MCHS further agrees that it will terminate the employment of any person found to have willfully or through deliberate ignorance or reckless disregard caused a falsification or improper alteration of any clinical record maintained at MCHS.

COMPLIANCE AND ENFORCEMENT

21. MCHS agrees that it will comply fully with the applicable laws, rules and regulations governing the Medicare and Medicaid programs, including the Nursing Home Reform Act of 1987, as amended and codified at 42 U.S.C. §§ 1395, et. seq., 1396 et. seq.; 42 C.F.R. Parts 483, 488. MCHS further agrees to continue to implement its Corporate Compliance Program dated 1997, as amended. MCHS assures that it incorporates the policies and principles set forth in HHS-OIG's Compliance Program Guidance for Nursing Facilities, 65 Federal Register 14289 (March 16, 2000). The Corporate Compliance Program contains a comprehensive set of specific policies and procedures to ensure compliance by MCHS, including such issues as a Code of Conduct, Financial, Employee, Falsification of Records, Service Oversight, and Quality of Care. The Corporate Compliance Program has been submitted to the Governments and MCHS agrees to abide by it. A copy of the Corporate Compliance Program is

attached as Exhibit B.

22. If MCHS fails in any material respect to comply with any of the terms of this Agreement, or if any of MCHS's representations or warranties be willfully and materially false, the United States may, at its sole discretion, exercise one or more of the following rights:

a. Seek specific performance of this Agreement, in which case the prevailing party shall be entitled to an award of reasonable attorneys fees and costs; or

b. Exercise any other right granted by law, including civil contempt.

23. If the United States exercises any of its rights under paragraph twenty-two (22) of this Agreement, MCHS specifically reserves all of its rights to challenge, defend and contest any such action.

24. The obligations imposed by this Agreement on MCHS shall be in effect for a period of twelve (12) months from the date of execution of this Agreement, unless earlier terminated pursuant to paragraph twenty-six (26).

25. MCHS agrees to provide to the Governments a copy of the results of the evaluations conducted pursuant to this Agreement, including any written plans implemented to correct identified deficiencies.

26. At the completion of nine (9) months from the date of execution of this Agreement, a clinical member of Manor Care's Corporate Compliance Committee shall provide a report to the United States Attorney, Eastern District of Virginia regarding the status of MCHS' compliance with this Agreement. This report shall include a description of the specific steps that MCHS has taken to implement this Agreement, including the ten (10) recommendations contained in attached Exhibit A; barriers or impediments encountered that have precluded full and timely implementation of the Agreement, and the specific steps and/or procedures that have been adopted to overcome such barriers and ensure full implementation of the Agreement; a description of the training programs implemented pursuant to this Agreement; a summary of the activities undertaken in furtherance of these programs; and certification by an appropriate official of MCHS that applicable facility staff have completed the required training and that all the

information provided is correct. If this report is deemed acceptable to the United States Attorney, Eastern District of Virginia, which acceptance shall not be unreasonably withheld, all of MCHS' obligations imposed by this Agreement shall terminate.

RELEASES

27. In consideration of the promises made by MCHS in this Agreement and conditioned upon the acquisitions and payment in full of the items referenced in paragraphs one (1) and (2), the United States and the Commonwealth of Virginia, on behalf of the sovereigns, its officers, agents, agencies, and departments, hereby release and discharge MCHS, its parent, affiliates, officers, directors and employees from any and all civil or administrative monetary claims, actions, causes of action, liabilities, losses, and damages, including attorneys' fees, costs and expenses, now known to the United States or the Commonwealth of Virginia which the United States or the Commonwealth of Virginia may have against MCHS, its parents, affiliates, officers and directors and employees under the False Claims Act, 31 U.S.C. §§ 3729-3733, the Civil Monetary Penalties Law, 42 U.S.C. § 1320a-7a, the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812, Virginia's civil Medicaid Fraud statutes §§ 32.1-312 and 313 of the Code of Virginia, and common law theories of payment by mistake, unjust enrichment, breach of contract and fraud for: (a) any deficiencies cited or found in any surveys or inspections conducted by the Virginia Department of Health at MCHS from January 1, 1997 to the effective date of this Agreement, or (b) the adequacy of care (as described in paragraph B, above) provided during the period January 1, 1997 to the present to nursing home residents identified in the Subpoena Duces Tecum dated September 25, 2001.

28. The Parties agree that the releases given in the preceding paragraph specifically exclude the following:

a. Any civil or administrative disputes, adjustments, CMS or DMAS enforcement actions or claims relating to matters other than those for (1) any deficiencies cited or found in any surveys or inspections conducted by the Virginia Department of Health at MCHS from January 1, 1997 to the effective date of this Agreement and (2) the adequacy of care

provided during the period January 1, 1997 to December 31, 2002, to the nursing home residents identified in the Subpoena Duces Tecum dated September 25, 2001.

b. Any civil, criminal or administrative disputes or claims arising under the Internal Revenue Code, Title 26 of the United States Code.

c. Any disputes or claims arising under any express or implied warranties relating to products or services.

d. Any disputes or claims arising under the criminal laws of the United States or the Commonwealth of Virginia.

e. Except as explicitly stated otherwise in this Agreement, any administrative liability, including mandatory or permissive exclusion from federal health care programs.

f. Any obligations created by this Agreement.

g. Any civil money penalty or termination action by CMS or DMAS, if any such action is based on matters other than deficiencies cited or found in any surveys or inspections conducted by the Virginia Department of Health at MCHS from January 1, 1997 to the effective date of this Agreement or the adequacy of care (as described in paragraph B, above) provided during the period January 1, 1997 to the effective date of this Agreement.

29. MCHS agrees that all costs (as defined in the Federal Acquisition Regulation ("FAR") § 31.205-47 and in Titles XVIII and XIX of the Social Security Act, 42 U.S.C. § 1395-1395 g, and §§ 1396-1396v, (and the regulations promulgated there under) incurred by or on behalf of MCHS in connection with: (a) the Governments' investigations, and MCHS's investigation and defense of the matter covered by this Agreement, (b) the negotiation of this Agreement, (c) the expenditures made pursuant to paragraph two (2) of this Agreement, and (d) any corrective actions taken pursuant to this Agreement that are not related to providing resident care, (including but not limited to the costs associated with filing required reports and certifications) shall be unallowable costs for government contract accounting and for Medicare, Medicaid, VA and FEHBP reimbursement purposes. Unallowable costs shall not include: the cost of additional in-service professional and compliance training for the staff, the costs related to

additional personnel, including consultants, hired or retained for the purpose of improving resident care, capital improvements and other expenditures related to this Agreement to the extent the costs do not result in the Provider (MCHS) exceeding the Medicaid Prospective Operating Ceilings or Capital Reimbursement Limits. Unallowable costs shall be separately estimated and accounted for by MCHS and MCHS will not charge such costs directly or indirectly to any contracts with the United States or any State Medicaid program, or to any cost report, cost statement, or information statement submitted by MCHS, to TRICARE, VA or FEHBP programs. Nothing in this Agreement shall constitute a waiver of the rights of MCHS, or any Medicare fiscal intermediary or contractor, or any Medicaid fiscal agent, to examine or re-examine the unallowable costs described in this paragraph.

30. In consideration for such repose and on the terms and conditions contained herein, MCHS fully and finally releases, dismisses, and forever discharges the United States and the Commonwealth of Virginia, its agencies, employees, servants, and agents, from any and all claims, causes of action, liabilities, losses, appeals of remedies imposed by CMS or HHS-OIG, and damages, including attorneys' fees, costs and expenses, now known to MCHS which MCHS could have asserted against the United States, its agencies, employees, servants, and agents before the effective date of this Agreement for: (a) any deficiencies cited or found in any surveys or inspections conducted by the Virginia Department of Health at MCHS from January 1, 1997 to the present or (b) the adequacy of care provided during the period January 1, 1997 to the present on behalf of the nursing home residents identified in the Subpoena Duces Tecum dated September 25, 2001. This paragraph shall not be interpreted to prevent MCHS from pursuing amounts due to MCHS under the Medicare or Medicaid programs.

OTHER PROVISIONS

31. This Agreement constitutes the complete agreement between the Parties and may not be amended except by the written consent of the Parties.

32. The undersigned individuals signing this Agreement on behalf of MCHS represent and warrant that they are authorized by MCHS to execute this Agreement. The undersigned

United States and Commonwealth of Virginia signatories represent that they are signing this Agreement in their official capacities and that they are authorized to execute this Agreement and to bind their respective sovereigns to the terms and conditions herein.

33. Each party to this Agreement will bear its own legal and any other costs incurred in connection with this matter.

34. This Agreement is legally binding and judicially enforceable by the Parties and it shall be applicable to and binding upon all of the Parties, their officers, agents, employees, assigns, and successors, including any transferees of MCHS.

35. The effective date of this Agreement will be the date of the signature of the official signing on behalf of MCHS.

FOR THE UNITED STATES OF AMERICA:

PAUL J. MCNULTY
UNITED STATES ATTORNEY

Date: 2/3/04

By: Constance H. Frogale

CONSTANCE H. FROGALE
Assistant United States Attorney
2100 Jamieson Avenue
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(703) 299-3752

FOR THE COMMONWEALTH OF VIRGINIA:

Date: 12/23/03

TRACEY D. STITH
Assistant Attorney General
Medicaid Fraud Control Unit
Virginia Attorney General's Office
900 East Main Street
Richmond, Virginia 23219

Date: 12/23/03

RANDALL W. CLOUSE, DIRECTOR
Medicaid Fraud Control Unit
Attorney General's Office
900 East Main Street
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Date: 12/22/03

PATRICK W. FINNERTY
Director
Department of Medical Assistance Services
600 East Broad Street
Richmond, Virginia 23219

Date: 1/14/03

THE HONORABLE JERRY W. KILGORE
Attorney General for Virginia
Attorney General's Office
900 East Main Street
Richmond, Virginia 23219

Date: 1-28-04

THE HONORABLE MARK R. WARNER
Governor of Virginia
State Capitol, 3rd Floor
Richmond, Virginia 23219

FOR HEALTH CARE AND RETIREMENT CORPORATION OF AMERICA:

Date: 2/5/04

ON BEHALF OF MANOR CARE
HEALTH SERVICES-ALEXANDRIA
(f/k/a Oak Meadow Nursing Center)
1510 Collingwood Road
Alexandria, VA 22308

Date: 2/4/04

CAROL C. LOEPERE, ESQUIRE
Attorney for Manor Care Health
Services-Alexandria
Reed Smith
1301 K Street N.W.
Washington, D.C. 20005

Report to the Department of Justice

Site Visit- Manor Care Health Services, Alexandria

July 9-July 10, 2003

Marie Boltz, MSN, NHA

Susan Renz, MSN, CS

SITE VISIT- Manor Care Health Services –Alexandria

Introduction

Manor Care of Alexandria, (MCA) has a bed capacity of ninety-six (96), and is certified for Medicare and Medicaid. On 7/9/03, the Administrator reported that the census was eighty-eight (88) with the following payer mix: seventeen percent Medicare, ten percent private pay, and the remaining Medical Assistance. The one story residence houses three nursing care units with no specialty units. Doors are alarmed and semi-locked, with coded keypads. A full-scale rehabilitation suite offers Physical Therapy, Occupational Therapy, and Speech Therapy.

Over a two-day period, (July 9 and July 10, 2003) we evaluated the services provided by MCA against generally accepted standards of clinical practice, including the following:

- Federal regulations for long term care facilities contained within 42 CFR 483;
- Clinical practice guidelines published by the Agency for Health Care Policy and Research;
- Standards of the American Nurses' Association, American Dietetic Association, the National Association of Activity Professionals, and the National Association of Social Work; and
- Current published research and educational materials.

The evaluation of MCA consisted of an appraisal of the safety, sanitation, and function of the environment. Because the assessment and care planning process is the overarching clinical process that directly influences the quality of life and quality of care for residents, a sample of residents was evaluated to determine the facility's practices surrounding these functions. Included in this evaluation was an observation of the care provided. A focused evaluation of the following clinical management systems was also conducted: nutritional care; prevention and treatment of pressure sores; prevention and management of falls/accidents, and detection/ response to acute changes. The utilization, functions, and education of staff were also assessed. Finally, the quality assurance/ improvement activity was evaluated.

Our evaluation consisted of the following:

- Tour of the building
- Interviews with administrative, management and direct-care staff
- Twenty-two (22) individual resident evaluations, including chart audits, observation of care, and interviews with residents
- Review of selected facility policies and procedures
- Interview with five residents, including the Resident Council president
- Review of Quality Assurance /Improvement materials
- Review of education program content
- Review of facility survey reports

Our conclusions are based upon our clinical and administrative knowledge and experience in gerontologic care and long-term care.

SITE VISIT- Manor Care Health Services –Alexandria, Boltz/Renz

Environment

The facility appeared very clean and relatively safe with the exception of high gloss floors in some units (creating glare), and equipment that is stored n the hallways, limiting adequate clearance. The activity space is limited to a small, centralized activity room, and dining area, and hall/corridor spaces that include sitting areas. Thus, there is insufficient space and furniture to promote function and involvement in activities.

There is adequate lighting and some carpeting of communal areas, which reduces the risk of fall-related injuries and creates a pleasant ambience. Resident rooms appeared personalized with homelike and comfortable community areas. Equipment appeared clean and well maintained. The Maintenance Director produced equipment and utilities management logs documenting consistent and periodic safety checks. The kitchen was clean with no safety hazards, and there was evidence of consistent quality control checks for sanitation (temperature monitoring of the dishwasher, freezers, dishwasher, and food).

Medical Services

The Medical Director described his role to include oversight of physician compliance with state/federal regulations and medical bylaws. In addition the physician described the following involvement in quality improvement activity:

- attendance at weekly "quality" meetings to review at-risk residents;
- attendance at monthly quality improvement meetings;
- chart audit to evaluate unexpected deaths; and
- evaluation of the events preceding unplanned transfers.

Chart audit demonstrated that the residents in the sample size received timely and comprehensive visits/examinations from the physicians and the nurse practitioners. The residents who were interviewed expressed satisfaction with medical services.

The medical director reported, and the nurses corroborated, that he provides emergency backup when the nursing staff are unable to contact a resident's attending physician.

Nursing Services

The DON reported that there is twenty-four hour nursing administrative coverage (provided by an RN). Three nurses confirmed this practice. The DON reported that the charge nurse, with support from the ADON and DON, conduct assessments and provide oversight to direct care staff. The MDS coordinator facilitates the care planning process. CNAs and charge nurses do not routinely attend care-planning meetings. This lack of integration in the care planning process was evident in the fact the nursing assistants, although able to describe the personal care needs of residents, were unable to articulate understanding of functional status and restorative plans/needs.

SITE VISIT- Manor Care Health Services –Alexandria, Boltz/Renz

The DON and ADON described the following clinical management systems:

- Pressure sore prevention and management- including risk assessment; the provision of pressure-relieving devices, nutritional assessment and intervention; notification of the physician and family of skin breakdown and significant change in a wound; local wound treatment (including treatment of infection and debridement of necrotic tissue); and weekly wound tracking and assessment.
  Evaluation: The facility has commendably reduced the facility acquired pressure sore rate from 20 % in 2001, to less than 2 % at present. Chart audit and observation of care demonstrated that the facility is providing care consistent with the newly introduced Manor Care policy and procedure, which reflects the generally accepted industry standards for pressure sore prevention and care. High-risk residents were observed to be adequately positioned and repositioned.
- Management of nutrition, including significant weight gain and loss- including weight monitoring, use of calorie counts, lab monitoring, assessment by the dietitian, physician and family notification; dietary modifications, use of assistive feeding devices and speech/swallowing evaluations.
  Evaluation: Chart audit and observation of care demonstrated that the facility is providing care consistent with the newly introduced Manor Care policy and procedure, which reflects the generally accepted industry standards for pressure sore prevention and care. The physicians and staff need to evaluate the residents' medication use as potential causes or factors associated with anorexia and weight loss.
- Fall/injury prevention and management- including risk assessment, the use of protective devices, environmental modification, evaluation of medication, surveillance, of toileting /incontinence care, and restorative care. The response to falls/injuries including assessment for injury, physician and family notification, provision of emergency treatment, and care plan revision, including providing alternatives to physical restraints were also presented. The Director of Nursing reported that the process of educating nursing staff to the new protocol is still in process.
  Evaluation: Chart audit and observation of care demonstrated that the facility is providing care consistent with the newly introduced Manor Care policy and procedure, with the exception of the following:
  - Evaluation of medications and the risk associated with medications that affect blood pressure, level of consciousness, and mentation.
  - Provision of restorative/rehabilitative care to increase strength and balance, and thereby decrease fall/injury risk.
  -

- Provision of toileting to reduce the risk of falls/injuries associated with urinary incontinence.
- Conducting a post-fall assessment that yields a plan, targeted to the individual risk factor that caused the fall, so that the risk of future falls/injuries can be prevented.

The facility has commendably eliminated all but four sets of full length siderails. Eight residents who are physically restrained to prevent falls, were evaluated (one lap tray, four lap buddies, and three sets of full length siderails). Although the staff was using the least restrictive device as restraints, alternatives to restraint use, including restorative care, meaningful activities adapted to physical and cognitive challenges, and alternatives to wheelchair seating were not evaluated.

- Pain Assessment and Management- including assessment, pharmacologic interventions, non-pharmacologic interventions, and evaluation of response to treatment. The Assistant Director of Nursing reported that the facility has implemented the process of conducting initial and quarterly assessments for pain, which was validated through our chart audit. She further described the next step - educate nurses on the process of monitoring and documenting response to pain medication, and the provision of non-pharmacologic approaches to pain.
  Evaluation: Chart audit confirmed the above stage of implementing the Manor Care pain policy.
- Evaluation and treatment of acute medical problems- including assessment, physician and family notification; and provision of emergency services.
  Evaluation: Interviews with staff, residents, and families did not demonstrate problems in this area.

Interviews with Residents

Three family representatives were interviewed. All family members reported that the staff notified them of changes in the resident's condition and that staff appeared responsive to the residents' needs. The five residents who were interviewed described satisfaction with their care, and that staff treated them well and were responsive to their requests/needs. They also reported that they felt that the administrator responded to their concerns, complaints and suggestions. All further stated that they were offered meal alternatives as desired. The Resident Council President reported that an average of twenty residents attend council meetings and that the Administrator provides support by assisting, (with other staff's help) residents to the meeting, recording minutes, and arranging for department heads and other staff to address resident concerns and suggestions.

Individual Evaluations of Residents

Twenty-two residents were evaluated to assess compliance with generally accepted standards and facility policy and procedure. Follow-through on Quality Improvement activity was also assessed. The source of information included resident records, interviews with staff, interviews with residents, and observation of care. The results are as follows:

- The MDS (Minimum Data Set) assessments accurately reflected other documentation in the resident's record as well as our observations.
- The care plans largely addressed the needs and preferences identified in the assessments (MDS and supplemental assessments).
- Management of nutritional problems, prevention and treatment of pressure sores, and management of acute medical problems were addressed in a manner consistent with facility policy and industry standards.
- There were no observed discrepancies between the care planned and the actual care provided.
- Six nursing assistants and three nurses, when interviewed, demonstrated an understanding of the residents' basic care needs.
- Staff interaction with residents appeared positive. Staff was kind and responded to requests for assistance in a timely manner.
- Residents appeared clean and well groomed.

The following are areas that warrant attention in order to promote resident health and function:

- Care plans contained generic approaches for falls, activities of daily living, restraints, psychotropics, depression, and anxiety. Individualized approaches were rarely evident, rendering the plans less than adequate to meet resident needs/preferences.
- Plans to restore and/or maintain resident function and health were not consistently evident, including efforts to reduce incontinence, to increase mobility, and to increase self-care. Many residents eat their meals in their rooms, limiting socialization, posing a safety risk, and compromising resident function and direct care staff effectiveness /efficiency.
- Residents who are receiving psychoactive medication did not have documented psychosocial interventions as alternatives or supplements to pharmacologic intervention. The need for anti-depressants, and subsequent response to treatment was not validated with depression screening or related assessment. Triggers, agenda behaviors, and coping measures were not identified to facilitate alternatives to psychoactive use. The corporate regional operations person reported that the corporate social worker plans to visit the facility and evaluate social work function.
- Another interdisciplinary area of weakness identified was the provision of activities. Activity assessments and plans did not address the

residents' needs for adaptation, i.e., efforts to compensate for loss of cognition, function, and physical ability. As a result, although there are opportunities for diversion, the residents' ability to participate in these activities is diminished, without alternatives offered. In addition, clinical issues such as fall/injury prevention, weight loss, and depression are not addressed with individualized activity approaches. The administrator reported that a corporate activities consultant has recently begun to assist the activities director, but this support has been limited to documentation compliance thus far.

Corporate Compliance and Quality Assurance / Improvement Program

The Administrator described the scope, function, associated roles and operations of the Corporate Compliance Program and the Quality Improvement (QI) Program. The corporate compliance program monitors resident satisfaction, responds to resident/family grievances, audits financial functions and includes a quality improvement program. Documents describing the analysis of problems and areas for improvement were reviewed, including focused action plans and follow-up evaluation. Chart audit and staff interviews were conducted to validate this activity.

The Director of Nursing reported that the "Quality of Life" committee, consisting of the interdisciplinary team reviews the clinical needs and response to treatment of residents with weight loss/gain, pressure sores, pain, psychoactive use, restraint use, and falls/injuries. The following is a sample of QI activity, conducted by the interdisciplinary team:

- Pressure ulcers- Policy and procedure has been upgraded and wound occurrence and response to treatment are tracked on a weekly basis. Pressure sore prevention and management are included in education programs.
- Falls/Accidents- Smaller, safer siderails have replaced older models. The facility monitors fall/injury rate.
- Plant improvement including roof replacement, kitchen renovations, and renovation of resident areas to create a more homelike atmosphere.

Education material appears relevant, in that it reinforces facility policy, and appears to address findings of quality improvement activity.

Conclusions

Manor Care of Alexandria has, over the past two years, developed and implemented much improvement activity. At this developmental stage, an infusion of educational expertise, targeted clinical operational support, and continued plant/equipment upgrades will support the efforts of a dedicated administrative staff. The detail of these recommendations follows.

Recommendations

1. The facility has made progress in implementing clinical management systems. Full implementation of the following policies/procedures is essential: pain assessment/management, restraint use, and fall/injury prevention/management. The implementation of these protocols needs to be evaluated- both process and outcomes, on an ongoing basis.

2. We hope that the consultant corporate social worker evaluates the psychosocial assessment process/content, provides education addressing common clinical conditions/interventions, and collaborates with staff to develop a mechanism for sharing relevant information with other staff. Ongoing quality monitoring is warranted to evaluate the facility response to the consultation.

3. The facility needs to develop a protocol for psychoactive use, that includes at a minimum, the following:
   - minimum assessment parameters (evaluation of mental status and a depression screening);
   - non-pharmacologic interventions to address anxiety, depression, and uncomfortable behaviors, including adapted communication approaches, environmental modification, meaningful activities, and management of co-existing medical problems;
   - the role of the interdisciplinary team in providing assessments and interventions; and
   - prescribing guidelines for psychoactive use in the older adult; and
   - ongoing quality assurance activity to monitor compliance with facility policy, and evaluation for opportunities for systemic improvement activity.

4. The medical staff should be provided education on all Manor Care of Alexandria clinical practice protocols. This education should include the clinical and regulatory basis for these policies/procedures, and should be incorporated as an expectation in the medical by-laws. In addition, medication use in the elderly should be addressed as a medical staff education service, and incorporated in all future physician orientation programs.

5. The facility needs to develop a therapeutic activity program in order to prevent the complications associated with inactivity: loss of function, psychoactive use, depression, weight loss, and pressure sores. To accomplish this, the facility should upgrade the activity assessment process to include an evaluation of functional status and the associated needs for adaptation (to supplement the information regarding resident

6. preference). The corporate activity consultant will hopefully assist the activity staff to develop and implement a therapeutic assessment process. Upon the initial completion of resident assessments, an interdisciplinary task force should develop an activity program that provides opportunity for self-expression, leisure, fitness/mobility, restorative care, lifestyle programs, spiritual expression, emotional support and connectivity. To support the delivery of a therapeutic activity program, all staff require education on the need and value of therapeutic activities, as well their respective responsibilities in supporting the residents' activity plans. Nursing assistants are integral to the implementation of activities, and need to be included at care planning meetings in the planning, provision, and evaluation of activities. In addition, the resident's plan and activity schedule needs to be provided to the nursing staff to ensure follow-through on the activity plan.

7. Corporate and facility staff need to develop a plan to provide restorative care for all functional levels, that addresses the following components of resident function: communication, mobility, involvement in self-care (bathing, dressing, grooming, and eating), toileting, and activity involvement.

8. Corporate and facility staff needs to evaluate the current use of resident living space, and identify other potential areas for dining and involvement in activities. The seating needs of residents, including providing alternatives to wheelchairs needs to be evaluated, with the goal of utilizing wheelchairs, only when necessary for transport, not for continuous seating. The facility needs to identify residents at high risk for bed-related falls/injuries and provide adjustable-height, high-low beds. The administrator plans to evaluate the food service delivery system, and develop a plan to increase resident dining capacity. The facility will need to purchase additional food warming systems to provide food at the appropriate temperature to residents who receive meals in additional, alternate dining sites.

9. The facility and corporate staff plan to engage the services of a consultant, Dr. Iris Parham, and/or designee to provide gerontologic education. In order to be effective, this education needs to be provided through written training modules, with a train the trainer plan to facilitate ongoing replication of this education by facility staff, after the initial education series is complete. Hopefully, this education will provide a gerontologic core training program that reflects current clinical research-based standards and that addresses the following:
    - Attitudes toward aging/ combating ageism
    - Age-related changes in the elderly

- Psychosocial needs- family, sexuality, spirituality
- Therapeutic activities
- Restorative concepts and care
- Atypical presentation in the elderly/Acute problems
- Common chronic physical challenges
- Dementia care
- Pharmacology-including polypharmacy, unnecessary drugs, drug interactions, contra- indicated medications, lab monitoring, and psychoactive use.
- Mental health problems- depression, mood disorders, thought disorders, etc.
- Clinical issues- Falls/Injuries, Pressure sore prevention and management, Urinary incontinence, Nutrition, Pain
- Role of the interdisciplinary team

The content needs to be adapted for all levels of staff, and supplemented with corresponding education for department heads/ managers on quality improvement and regulatory issues. The above education also needs to be complemented by competency evaluation (written and observed demonstration), that validates proficiency.

10. The effectiveness of the above-stated education efforts, including the impact upon the assessment/care planning process and clinical outcomes, needs to be evaluated. We do not recommend an outside monitor. We do recommend that Dr. Parham, the outside consultant selected by MCA, conduct onsite evaluations for a six- month period, at a minimum on a monthly basis, to implement and direct the training described in item 8. In addition, we recommend that Dr. Parham evaluate /validate the increased staff expertise/knowledge, and the impact upon care and service delivery.

Respectfully submitted,
Marie Boltz and Susan Renz
July 15, 2003

HCR MANOR CARE, INC.

CORPORATE COMPLIANCE PROGRAM

HCR MANOR CARE, INC.

CORPORATE COMPLIANCE PROGRAM

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HCR MANOR CARE, INC.

CORPORATE COMPLIANCE PROGRAM

SECTION I - EXECUTIVE SUMMARY

HCR Manor Care, Inc. and its subsidiary companies ("HCR" or "Company") are strongly committed to conducting their operations in compliance with all laws and regulations which apply to any aspect of their business. As a health care organization, the Company is particularly sensitive to the avoidance of health care fraud and abuse. To facilitate the prevention of fraud and abuse and to ensure that the Company is in compliance with all legal and ethical standards, the Company has adopted this Corporate Compliance Program for its nursing homes, assisted living facilities and related operations ("Program"). The Program consists of the following sections:

HCR Standards of Business Conduct - This section contains the Company's Standards of Business Conduct which summarizes the main legal and ethical standards by which employees will conduct the business affairs of the Company. The Standards have been approved by the Company's Board of Directors. The Standards are set forth in writing and are distributed to each management-level employee when employment first begins. Employees are required to review and understand the Standards and to sign an acknowledgment to that effect. Periodically, employees are required to reconfirm their commitment to the Standards. Employees are provided with orientation and education on the Standards.

Compliance Policies and Procedures - This section identifies the specific Company policies and procedures which, in addition to the Standards of Business Conduct, are designed to ensure that the Company operates in compliance with the extensive health care regulatory framework applicable to the Company's operations. The policies, procedures and protocols referenced in this section are heavily weighted toward compliance with Medicare and Medicaid regulations. In addition, the Company has adopted policies, such as its Contract Review Policy and its Legal Opinion Policy, which are designed to ensure that appropriate legal review is undertaken prior to entering into significant business transactions.

Compliance Committee - This section outlines the duties and responsibilities of the Compliance Committee which consists of three corporate officers appointed by the President of the Company and approved by the Board of Directors. The Committee has responsibility for developing health care fraud and abuse compliance policies and protocols, arranging for communication and distribution of policies, developing procedures for monitoring and auditing, conducting internal investigations and making recommendations on corrective action. The Committee reports regularly to the Audit Committee of the Board of Directors including an annual report which details: (i) the functioning of the Program; (ii) significant investigations of alleged violations of the Standards of Business Conduct or violations of law; (iii) any recommended modifications to the Program or the Standards of Business Conduct; and (iv) such other matters as may be provided herein or as the Committee deems advisable.

Education and Training - This section describes the education and training programs conducted by the Company for management and staff employees on health care compliance issues. Education and training is provided on the overall corporate compliance program as well as on individual subjects, such as reimbursement, accounting and professional services. Through a network of consultants and corporate staff, the Company provides on-going training and guidance on the specific health care regulatory requirements applicable to the Company's operations.

Communication - This section outlines the various communication policies applicable to the Company's health care compliance efforts. Communications on compliance issues are subject to complete anonymity and a non-retribution policy applies to all such communications. Employees are required to report instances of suspected misconduct relating to health care regulatory compliance. Initial reports of suspected misconduct should be made to the employee's immediate supervisor. If employees do not get satisfaction or are uncomfortable making the report to the supervisor, employees should report the matter to the next level of supervision, to a member of the Compliance Committee or through the IICR Care Line which operates as a hot line for employees to report anonymously instances of suspected misconduct. Reports suggesting material violations of compliance policies or legal requirements are referred to the Compliance Committee and investigated immediately. An open line of communication for employees to express compliance concerns of any nature is also available with the members of the Compliance Committee.

Auditing and Monitoring - This section describes the procedures the Company has adopted to ensure that the Company's health care compliance policies and procedures are being implemented and followed. The Accounting, Internal Audit, Reimbursement and Professional Services Departments have each adopted mechanisms to spot audit facilities and other field units for compliance with Company health care policies and legal requirements. To the extent violations are discovered, reports will be made to the Compliance Committee for further investigation and recommendations regarding corrective action.

Disciplinary Action - This section describes the Company's policy regarding disciplinary action that may be imposed upon employees for failing to comply with the Company's Standards of Business Conduct or with other health care compliance policies. In general, disciplinary action up to and including termination may be imposed for intentional violations of the Company's compliance policies regarding health care fraud and abuse. All employees are informed of the potential for disciplinary action for health care compliance violations. Discipline will be imposed under the disciplinary procedures outlined in the Company's employee handbook.

Investigations, Corrective Action and Reporting - This section covers the Company's policies and procedures on investigating instances of suspected misconduct, correcting identified problems and meeting any reporting obligations. Investigations are conducted promptly following receipt of information of potential misconduct. Investigations are conducted by or at the direction of the Compliance Committee with the assistance and advice of the Legal Department. At the conclusion of the investigation, the Compliance Committee will make

recommendations for corrective action including disciplinary action, if appropriate, for involved individuals. If the investigation reveals that improper activity may have occurred, the Legal Department shall be responsible for determining the Company's obligations for reporting such activity to the appropriate authorities.

SECTION II - HCR MANOR CARE STANDARD OF BUSINESS CONDUCT

The "HCR Manor Care Standards of Business Conduct" ("Standards") were revised in the fall of 1998 following the merger of Health Care and Retirement Corporation and Manor Care, Inc. The Standards are based on the separate code of conduct in effect at HCR since 1986 and a similar code in effect at Manor Care since 1980. The Standards contain the basic principles, both legal and ethical, which guide the Company's conduct of its business operations. The Standards set forth the Company's commitment to full compliance with applicable health care laws and regulations. A copy of the Standards is attached as Exhibit A.

SECTION III - COMPLIANCE POLICIES AND PROCEDURES

The Company has adopted specific policies, procedures and protocols for each of the major departments of the Company. These policies and procedures have been designed to ensure that the Company operates well within the regulatory framework that governs the Company's businesses. Since the Company receives reimbursement for services from governmental agencies, the policies and procedures are heavily weighted toward compliance with Medicare and Medicaid rules and regulations. The operating manuals developed and distributed by the Accounting, Professional Services and Reimbursement Departments all contain important guidelines to ensure that: (1) reimbursement sought from governmental agencies is legally justified and appropriate under applicable regulations; (2) private payors are billed fairly and appropriately for services rendered; (3) the marketing of the Company's services involves no kickbacks, referral fees or other improper payments; and (4) the purchase of products and services by the Company is based upon prudent buyer concepts and not upon improper attempts to influence Company's employees.

The relevant policies and procedures include the following:

Accounting

- Accounting Manual
- PeopleSoft Chart of Accounts
- Ferranti Patient Account Management Manual
- Resident Accounts Receivable Billing & Collection Manual
- CareNet User Training Manual

Human Resources

- Employee Handbook and Rules for Your Protection
- Personnel Policy Manual
- Recruiting Manual

Marketing

- Advantage Selling Skills Audio Tapes

Professional Services

- Medical Records Policies & Procedures
- Nursing Procedures Manual
- Quality Improvement Program Manual
- Resident Assessment & Care Planning Guidelines Manual (MDS 2.0 User Manual)
- Social Services Policies & Procedures
- CareNet User Training Manual

Purchasing

- Purchasing Policies & Procedures Manual

Reimbursement

- AdminiStar Skilled Nursing Manual (Medicare Coverage Guidelines)
- Other Fiscal Intermediary Manuals and Bulletins
- Reimbursement Manual
- Medicare Coverage Issues Manual (HCFA-Pub. 6)
- Medicare Skilled Nursing Facility Manual (HCFA-Pub. 12)
- Medicare Provider Reimbursement Manual (HCFA-Pub. 15)
- PPS-CFO Training Manual

In addition to the above policies, the Company has adopted certain other policies to assist in its compliance efforts. These policies include the following:

Contract Review Policy - This policy requires that the Legal Department review all significant contracts prior to the contract being entered into on behalf of the Company. To facilitate this review, the Legal Department, with the assistance of various staff departments, has developed a number of model contracts which the Company representatives use as a basis for negotiating contractual relationships. The Legal

Department review focuses primarily on health care fraud and abuse and related regulatory and legal issues.

Cost Report Preparation and Review Policy - Under this policy, all cost reports* for the Company's nursing centers are prepared by trained specialists in the corporate Reimbursement Department. Cost reports for other business operations are either prepared or reviewed prior to filing by the Reimbursement Department. As new businesses are acquired, the Reimbursement Department begins reviewing cost reports filed after the acquisition and, over time, assumes responsibility for the actual preparation of the reports.

Legal Opinion Policy - This policy provides that the Company will obtain written legal opinions from expert outside counsel prior to entering into significant business transactions or making strategic decisions which may be affected by health care laws or regulations. Verbal legal opinions from outside counsel may also be sought on a variety of subjects. The General Counsel of the Company is responsible for determining the matters on which legal opinions will be sought.

* The only nursing center cost report not actually prepared by the Reimbursement Department is for the Glenside Nursing Center in New Jersey. This cost report is prepared by an outside consultant and reviewed, prior to filing, by the Reimbursement Department.

SECTION IV - COMPLIANCE COMMITTEE

The Company's Compliance Committee is comprised of three corporate officers who have been appointed to the Committee by the President/CEO and approved by the Audit Committee of the Board of Directors. The Audit Committee is comprised of directors who are not employees of the Company. The General Counsel of the Company acts as counsel to the Compliance Committee. The Compliance Committee has overall responsibility for making recommendations on new or revised compliance policies and procedures, for monitoring compliance activities, for investigating reports of suspected misconduct and for periodically reporting to the President/CEO and the Audit Committee on the Company's compliance efforts including an annual report on activity relating to the Program. Specifically, the Compliance Committee has responsibility for the following activities:

1. The Committee regularly assesses the Company's operations to determine the need for additional or revised health care compliance policies, procedures, standards or protocols. To the extent that the Committee determines that a need exists for new or revised policies, the Committee makes recommendations to the senior management with operational responsibility.

2. The Committee provides assistance to management personnel in developing, implementing and updating policies, procedures, standards and protocols which may be necessary as a result of the recommendations of the Committee.

3. The Committee provides assistance to management personnel in developing, implementing and presenting orientation, education and other training programs regarding the Compliance Program, the Standards of Business Conduct and selected policies and procedures.

4. The Committee provides assistance to management personnel in developing, implementing and conducting procedures to audit and monitor the Company's performance under the Compliance Program.

5. The Committee receives reports of suspected violations of health care compliance policies and procedures, conducts or arranges investigations of reports of material violations and makes recommendations for corrective action. Corrective action may include changes in operating procedures, modification or revision of existing policies or procedures, adoption of new policies or procedures and discipline of employees who may have engaged in misconduct. The Committee receives advice and guidance from the Legal Department on the conduct of investigations and the obligations of the Company to report any confirmed misconduct.

6. The Committee regularly reports to the Company's senior management on compliance activities and, at least annually, reports to the Audit Committee.

7. The Compliance Committee meets on a quarterly basis or more often as necessary.

SECTION V - EDUCATION AND TRAINING

The education and training component of the Corporate Compliance Program consists of the following: orientation of new employees; annual in-service training on the Corporate Compliance Program and the Standards of Business Conduct; periodic in-service training on Company policies and procedures applicable to the employee's job duties and responsibilities; special in-service training on new compliance issues and other issues which may require focused training; one-on-one and small group counseling by corporate consultants on daily activities and issues; written advice on compliance issues; and self study.

1. Orientation. Each corporate officer, regional manager, administrator and other designated supervisory personnel shall receive, during such employee's orientation, a copy of the Company's Corporate Compliance Program and information concerning the importance of the Program, how the Program applies to the employee and what is expected of him or her, and the employee's reporting obligations under the Program. Orientation on the Compliance Program will be conducted by the employee's immediate supervisor.

2. Annual In-Service Training. At least annually, education and training on compliance issues shall be provided to each employee. Such training shall consist of the following: a review of the Corporate Compliance Program, a review of the Standards of Business Conduct, including the reporting requirements under the Standards, a discussion of any new compliance policies or procedures, a discussion of any new regulatory developments or requirements including any new "Fraud Alerts", and a question and answer period. The annual in-service training shall typically be conducted by, or at the direction of, the Compliance

Committee, the Legal Department and other corporate departments. For management-level and supervisory employees, this training shall usually be presented at regional or other group meetings. Facility administrators shall be responsible for providing appropriate training to non-supervisory personnel in each facility.

3. Special In-Service Training. Periodically, employees will receive additional in-service training, either as part of a group of managers (e.g., Admission Directors, Office Managers, Nurse Supervisors, etc.) or as part of special training designed specifically to update and advise employees on important developments in compliance matters. Special in-service training will be conducted by, or at the direction of, the Compliance Committee, the Legal Department or other corporate departments.

4. One-on-One or Small Group Counseling. Several corporate departments provide assistance to facilities through consultants (e.g., Accounting, Human Resources, Professional Services) who visit facilities on a regular basis. Other departments (e.g., Reimbursement, Legal) have staff members who are specifically assigned to a group of facilities and are regularly communicating with these facilities. These individual and small groups communications are utilized for a variety of business purposes, one of which is to provide counseling and advice on Company policies and procedures and regulatory and legal requirements. The education and training provided in this manner is available on a daily basis and may be requested at any time by the facility staffs.

5. Written Guidance on Compliance Issues. From time to time, written memos will be distributed as further guidance to the facilities on compliance issues. Such guidance memos may be generated by the Compliance Committee or any corporate department. Typically, the memos will be reviewed by the Legal Department prior to distribution.

6. Self-Study. Management level employees are expected to maintain and enhance their professional skills and expertise through participation in continuing education opportunities outside the Company and general reading and study in their professions. Employees are expected to be sensitive to new information on health care compliance issues, to communicate the information to others within the Company and to utilize the information to further ensure that the Company operates in compliance with all applicable regulations.

SECTION VI - COMMUNICATION

1. Reporting Suspected Violations. Employees are expected and encouraged to report health care compliance violations or suspected violations to the employee's immediate supervisor. If an employee is uncomfortable reporting the matter to the supervisor or if the employee does not receive satisfaction in making the report, the employee should report the matter to the next higher level of supervision, to a member of the Compliance Committee or through the HCR Care Line.

2. HCR Care Line. Employees, at their option, may report suspected improper conduct through the HCR Care Line (800-366-1232) All such calls are made on a confidential basis. Callers need not identify themselves; however, employees should recognize that there must be sufficient information provided to enable the Company to conduct an effective investigation. All such reports will be forwarded to the Compliance Committee for further handling.

3. Anonymity and Non-Retaliation. The Company policy provides that employees reporting compliance violations are assured that they will not be subject to retaliation or discrimination because of reports made in good faith. Employees making reports are also assured that the reports will be considered confidential and that the name of the reporting individual will not be disclosed except as may be required by law or law enforcement agencies.

4. Supervisory Responses. Supervisors who receive reports of conduct which involves inadvertent or unintentional errors in procedures will investigate the conduct and take immediate corrective action. Material violations of health care procedures or intentional misconduct will be communicated to the Compliance Committee for further handling.

5. Employee Awareness. To make certain all employees are aware that questions concerning compliance with the law or the Standards will be addressed, all facilities and other business units, including corporate headquarters, shall post a communication which shall outline the available sources for employees to address questions concerning compliance (i.e., HCR Care Line, the members of the Compliance Committee or their supervisors).

SECTION VII - AUDITING AND MONITORING

Several departments of the Company assist the Compliance Committee in auditing and monitoring field units for health care regulatory compliance. Initially, all supervisory staff are expected to take steps to ensure that the Company's policies and procedures are implemented and continued to be followed in the units supervised. Additionally, the Accounting, Internal Auditing, Legal, Professional Services and Reimbursement departments each perform certain aspects of the Company's compliance auditing and monitoring functions. The following activities are designed to ensure that compliance policies and procedures are being followed and that maximum assistance is provided to Company units to ensure that full compliance is achieved.

The Financial Services Consultants ("FSCs") and other accounting personnel regularly visit Company facilities and other field units to assist them in implementing and following Company accounting policies. FSCs have been trained to observe business office personnel to ensure that accounting policies and procedures are being followed. A Medicare/Medicaid check list has been developed to enable the FSCs to spot check facilities for regulatory compliance. FSCs are expected to correct immediately any actual or potential deviations from Company policies. The Accounting Department reports any suspected material violations of Company policies or intentional misconduct to the Compliance Committee for further action.

The Internal Audit Department annually conducts audits of selected business offices and corporate staff units. Internal audit procedures include a sample check of business office procedures which impact Medicare and Medicaid billing. To the extent that Internal Auditing

discovers inadvertent errors in procedures, recommendations for immediate corrective action are made to appropriate supervisory personnel. Internal Auditing follows up to ensure that corrective action has been implemented. Material violations of Company policies or intentional misconduct will be reported to the Compliance Committee for further action.

The Legal Department, through its staff attorneys, regularly provides advice on a wide range of topics to corporate staff and field units. The Legal Department attorneys are expected to be alert to practices and procedures which may not comply with Company policies or may otherwise be out of compliance with applicable health care laws and regulations. Upon learning of any inappropriate practices, the Legal Department will immediately provide recommendations on corrective action to appropriate supervisory personnel and report material compliance violations to the Compliance Committee for further action.

Consultants from the Professional Services Department ("PSCs") provide assistance to the nursing centers on nursing services including appropriate medical documentation. PSCs are expected to be alert to potential errors, mistakes and other misconduct in connection with the delivery and documentation of medical care, to assist in taking corrective action and to report instances of material compliance violations or intentional misconduct to the Compliance Committee for further action.

The Reimbursement Department works through staff consultants and reimbursement specialists, both financial and clinical, who assist field units in complying with Medicare and Medicaid reimbursement regulations. Reimbursement Department personnel prepare or review

all cost reports submitted to governmental agencies. On a selected basis, the Reimbursement Department tests cost report information received from facilities to verify the accuracy of the information. Reimbursement specialists and consultants are in regular contact with the facility staffs, through telephone conversations, facility visits, regional meetings and written correspondence. Reimbursement employees are expected to be alert to practices and procedures which may be inappropriate, to recommend immediate corrective action and to report material compliance violations or intentional misconduct to the Compliance Committee.

SECTION VIII - DISCIPLINARY ACTION

The Company's Employee Handbook includes a section, Rules for Your Protection, which outlines the disciplinary process applicable to employee misconduct. The Company maintains a progressive disciplinary process under which progressively more severe disciplinary action will result from more serious employee misconduct. The Company's rules provide for disciplinary action for employees who violate the Standards of Business Conduct, Company policies and procedures for the prevention of fraud and abuse and for violations of the law. The Compliance Committee, upon completion of an investigation, will make recommendations for corrective action, including imposition of discipline.

SECTION IX - INVESTIGATIONS, CORRECTIVE ACTION AND REPORTING

The Compliance Committee has overall responsibility for investigating conduct which may constitute a material or intentional violation of laws governing Medicare, Medicaid, other government reimbursement programs or the Standards of Business Conduct. Investigations may be conducted by the Compliance Committee, by supervisory personnel or by others designated by the Committee. Typically, investigations will be initiated upon receipt of a report or other information indicating that suspected misconduct has occurred. The investigation may include employee interviews, document reviews and research and consultation with outside experts and auditors. The Compliance Committee will consult with the Legal Department on the process to be followed in the investigation and related legal matters.

If the investigation reveals that the misconduct did occur, whether intentional or unintentional, the Compliance Committee after consultation with the Legal Department will make recommendations on corrective action, including any corrective action which must be undertaken immediately. Corrective action, if appropriate, would include reimbursement to the appropriate governmental agency of any overpayments received by the Company. Corrective action would also include appropriate steps to ensure that the activity does not happen again and disciplinary action for individuals involved.

If the Compliance Committee has reasonable grounds to believe that misconduct has occurred which may violate criminal or civil law or regulations governing federally-funded health care programs, the matter shall be referred to the Legal Department to determine the applicable reporting obligations.

HCR MANOR CARE, INC.

STANDARDS OF BUSINESS CONDUCT

HCR Manor Care, Inc. and its subsidiary organizations ("HCR" or "Company") are dedicated to providing the highest quality in long term care and related services. The Company is committed to achieving this vision by conducting its operations in compliance with applicable legal, regulatory and ethical standards. This statement is a summary of those standards of business conduct which all Company employees are expected to observe. All officers, managers, department heads, salaried employees, appropriate accounting employees and other personnel designated by the Company ("employees"), shall acknowledge their receipt and understanding of this statement and periodically shall confirm their understanding when requested by the Company.

Each employee is expected to understand and comply with the Standards. However, no set of principals or standards can anticipate each and every situation that may implicate legal or ethical standards. In the event an employee is not sure whether what they have been asked to do or what they contemplate doing is or is not legal or ethical, the employee must ask before he/she acts. In such a situation, the employee can ask the employee's immediate supervisor, next highest supervisor, any member of the Compliance Committee or the HCR Care Line. When in doubt, employees must ask before they act.

A. COMPLIANCE WITH LAWS AND REGULATIONS

The Company and its employees acknowledge that the health care industry is a highly regulated sector of the economy and certain business practices that are permissible elsewhere may be illegal for health care providers. To facilitate compliance with all applicable laws and regulations, the Company has developed operating and administrative policies and procedures which contain detailed guidance on legal requirements. The Company regularly provides training and education on these policies and procedures and the underlying regulatory provisions. Professional consultants assist nursing centers and other operations and their staffs in ensuring that daily operations are conducted within the appropriate legal framework. The Company's legal department is available to all employees for advice and guidance on compliance with applicable laws. Employees are required to perform their duties and responsibilities in compliance with applicable laws and regulations and with the Company policies and procedures that are designed to facilitate compliance.

Several federal laws, and corresponding or similar state laws, are particularly applicable to health care providers. Employees are strictly forbidden from engaging in any conduct which violates such laws and are subject to immediate disciplinary action if such misconduct takes place. These federal laws include the following:

Any false statement to a department or agency of the federal government is a crime. The federal False Claims Act specifically makes the submission of false claims to Medicare or Medicaid a crime. Violations of this statute include claims for services that are not medically necessary, claims for services that may be medically necessary but are not covered by Medicare (e.g. experimental procedures), using a code for a higher level of reimbursement than the code for the services actually provided, billing for one global procedure as a number of smaller ones to obtain a higher total level of reimbursement and providing false information on cost reports or any other documents or reports filed with Medicare or Medicaid.

The Medicare and Medicaid Anti-Kickback Act and many comparable state laws prohibit anyone from providing or offering to provide any remuneration in cash or in kind, directly or indirectly, in return for the referral of a patient whose treatment (item or service) is paid for in whole or in part by Medicare or Medicaid. Illegal kickbacks can take a wide variety of forms. They can be blatant direct payments for referrals or they can be more subtle and indirect (e.g., rebates, income guarantees, care or other expense allowances, cost free loans, paid for vacations, etc.). The language of the anti-kickback statute is broad and many seemingly innocuous business practices may be deemed to be illegal kickbacks by the government. Certain business practices may be exempt under specific circumstances. In uncertain cases, the advice of the Company's Legal Department shall be sought before engaging in the business practice.

Federal anti-fraud statutes are not limited to Medicare and Medicaid. The federal mail and wire fraud statutes make it a crime to use the mails or interstate wire communication (telephone) in furtherance of a scheme to defraud, or to obtain money or property through false or fraudulent pretenses or representations. Nearly every form of health care fraud (e.g., billing for services not provided, for services not provided as claimed, or for unnecessary services) can be attacked under these statutes, if the mails or interstate wire communications are used. Fraudulent and deceptive practices can take many forms, and employees must be careful not to make misrepresentations to suppliers, private insurers or government agencies.

Violations of the above laws and related federal and state laws can subject individuals and the Company to penalties and fines, and convicted individuals may be punished by imprisonment. As stated earlier, employees are strictly forbidden from engaging in such misconduct. The Company will not employ or contract for services with any person or entity that has been convicted of a criminal offense related to a government program or who is known to have been debarred or excluded from participation in a government program or otherwise sanctioned by a federal agency.

B. CONFIDENTIAL AND PROPRIETARY INFORMATION

1. General. HCR, like all companies, has proprietary and confidential information which should not be disclosed to our competitors or to the general public. Examples of such proprietary information are business, research and new product and service plans; facility profit and loss information; facility forms, policies and procedures; product systems and methods; vendor lists and detailed information regarding customer or vendor requirements; unpublished financial and pricing (rates) information. All employees have an obligation to keep such proprietary information confidential so as not to harm the company. Further, any disclosures of medical records or other information concerning our residents could be the basis for legal action

against the Company and the employee disclosing the information. Therefore, employees shall not, without proper authority, give or release data or information concerning the Company or its employees, patients, residents, customers, vendors or contractors to anyone not employed by the Company. Such information may be disclosed to other employees only if there is a proper business purpose for such disclosure. The Legal Department should be consulted in the event of any questions concerning disclosure of potential proprietary or confidential information.

2. Inside Information. Employees who possess material non-public information about the Company which could affect the Company's stock price or otherwise influence an individual investor's decision to buy or sell the Company's stock must refrain from trading in the Company's stock until a reasonable period of time (usually the third business day) has passed following the public disclosure of the information. Typically, material information will be non-public information about the Company's financial performance and other major developments concerning the Company. In uncertain situations, employees should review any proposed sale or purchase of the Company's stock with the Legal Department prior to executing the trade.

3. Business Opportunities. Employees shall not take advantage of business opportunities that the Company or any of its customers are interested in pursuing without prior approval by the Company. This prohibition extends to real estate or health care facilities which the Company may be interested in buying or leasing.

C. OUTSIDE BUSINESS INTERESTS

Employees shall avoid any outside financial or business interest that might influence their decisions or actions on behalf of the Company unless such interest has been fully disclosed in writing to the Company and a determination has been made as to the acceptability of the interest. Such outside interest could include, among other things:

1. A personal or family business or financial interest in an enterprise which has business relations with the Company if such financial interest represents a material part of the employee's net worth or income, or if such business relations with the Company represent a material part of the business of the outside enterprise; or

2. An investment in another business which competes with any of the Company's interests if the investment represents a material part of the income or net worth of the individual, or if the area of competition represents a material part of the activity of the outside business. Generally, the ownership of less than 1% of the stock of publicly-traded company shall not be considered a conflict of interest.

Employees shall also avoid outside employment or activities that would impair the effective performance of their responsibilities to the Company, either because of excessive demands on their time or because the outside commitment is contrary to their obligations to the Company. Any employee who may have a potential conflict of interest should disclose it to the Company and have the matter resolved prior to the matter becoming an actual conflict.

D. COMPETITIVE PRACTICES

The Company firmly believes that fair competition is fundamental to the free enterprise system. The Company complies with and supports all laws that prohibit restraints of trade, unfair practices, or abuse of economic power.

The Company will not enter into agreements or arrangements that unlawfully restrict its ability to compete with other businesses or the ability of any other business to compete freely with the Company. Company policy also prohibits entering into, or even discussing, any unlawful arrangement or understanding that might affect its pricing policies or the terms upon which its facilities or services are sold or that might be construed as dividing customers or sales territories with a competitor.

We will compete fairly in the marketplace. Thus, the Company will not interfere with contracts made between a prospective customer and one of our competitors nor will the Company engage in marketing practices that are intended to injure or discredit a legitimate competitor through the use of misrepresentations or false innuendo.

These principles of fair competition are basic to all our operations. They are integral parts of the following sections that cover the Company's dealings with suppliers, customers, and public officials.

E. DEALINGS WITH SUPPLIERS

The Company is a valuable customer for many suppliers of goods and services. Those who wish to do business with the Company must understand that all purchases by the Company will be made exclusively on the basis of price, quality, service and suitability to the Company's needs. Purchases of goods or services must not lead to Company employees or their families receiving personal benefits of any kind, whether direct or indirect.

Gifts or entertainment involving customers and suppliers can be misunderstood even if exchanged out of the purest of motives. Such practices can appear to be attempts to influence our employees into directing Company business to a particular supplier. To avoid even the appearance of improper relations with suppliers or potential suppliers, the following standards shall apply to the receipt of gifts and entertainment by Company employees:

1. Gifts or Other Benefits. Employees are prohibited from soliciting gifts, gratuities, or any other personal benefit or favor of any kind from suppliers or potential suppliers. Employees are prohibited from accepting gifts of money or gifts which have significant monetary value (e.g., airline tickets). Employees may accept unsolicited non-money gifts provided that such gifts are of nominal material value.

Any gift of more than nominal value must be reported to your supervisor to determine whether it can be accepted. Some gifts may be perishable so as to make their return impractical. Supervisors can permit acceptance of such gifts, or may require that such gifts be returned or donated to charitable or other non-profit organizations. Supervisors may also require employees to inform givers that such gifts are discouraged.

2. Entertainment. Employees shall not encourage or solicit any entertainment from any individual or company with whom our Company does business. Entertainment includes, but is not limited to, activities such as dinner parties, theater parties and sporting events.

From time to time employees may accept unsolicited entertainment, but only under the following conditions:

a. The entertainment occurs infrequently;

b. It arises out of the ordinary course of business;

c. It involves reasonable and not lavish expenditures; and

d. The entertainment takes place in settings that are reasonable, appropriate, and fitting to employees, their hosts, and the business at hand.

3. Vendor Sponsored Events. From time to time Company vendors or suppliers may invite employees to vendor sponsored luncheons, trade shows, educational seminars or similar events. Prior to accepting any such invitation, the employee shall obtain approval from his or her supervisor.

F. DEALINGS WITH RESIDENTS, PATIENTS, REFERRAL SOURCES AND OTHER POTENTIAL CUSTOMERS

Employees must keep all dealings with residents, patients, the families of residents and patients, and other potential customers fair and above-board. The Company earns and retains business because of the quality of its facilities and services. Residents, patients or family members should never think that they have to give gifts to get good service. Under no circumstances should we, as individual employees, ever solicit or accept any gifts from residents, patients or family members. All offers of gifts from residents, patients or their families must be declined and reported to the facility administrator or executive director.

If a resident or a family member wants to voluntarily recognize a group of employees or the facility generally, they can contribute a gift that is used for the benefit of all facility employees. The facility administrator or executive director must ensure that the gift is voluntary and that it goes to benefit the employees as a group.

G. DEALINGS WITH REFERRAL SOURCES OR POTENTIAL CUSTOMERS

The Company must be extra careful on the subject of gifts and entertainment involving referral sources or other potential customers. Such care is required because federal law and the laws in many states prohibit any payment for patient referrals, and gifts or lavish entertainment could be mistakenly construed as payment for such referrals. Generally, the following guidelines would apply to such gifts and entertainment.

Entertainment for potential customers or referral sources may only be provided with supervisory approval. Entertainment must be of sufficiently limited value so that the

entertainment cannot be construed as a referral fee, kickback, bribe or payoff. Entertainment must also be consistent with accepted ethical customs and practices, and public disclosure of the facts would not embarrass the Company. Entertainment shall be limited to activities and events which are considered normal and acceptable in conjunction with the related business transaction. In uncertain situations, the Legal Department should be consulted prior to arranging the entertainment.

Gifts to referral sources or other potential customers of more than nominal value are not permitted. Even in the case of gifts of nominal value, other than nominal public relations items with the Company logo or name (e.g., coffee mug, calendar), employees should first receive approval of their supervisor. Obviously, gifts of cash or cash equivalents, in whatever amount, are never permitted.

In some situations, the Company may itself be a referral source. Given that it is as illegal to receive payment for a referral as it is to give such payment, the above rules apply to Company employees where the Company is the referral source.

H. DEALINGS WITH PUBLIC OFFICIALS

The regulatory nature of the Company's business often requires employees to be in contact with public officials. The employees who regularly make these contacts have special responsibilities for upholding the Company's good name. The following standards point out these special responsibilities:

1. No employee shall make any form of payment, direct or indirect, to any public official as inducement for any official action or omission to act. The Company will never pay a bribe. Any requests to Company employees that appear to be attempts at bribery must be reported immediately to your supervisor and to the Compliance Committee.

2. No employee shall give any gifts to a public official.

3. Employees may provide public officials with items containing the Company logo (such as pins, caps, mugs, notebooks, etc.) if the items are part of the Company's general marketing and public relations programs, are of nominal value and are given for informational purposes only.

4. On special ceremonial occasions, the Company may publicly give gifts of more than nominal value to public institutions or public bodies. Such gifts can commemorate special events or milestones in the Company's history, such as new facilities dedications. These may be transmitted through public officials, but the gifts are given to the public institutions and public groups they represent, not to the officials personally. Any such gifts must be approved in advance by the Company's President, Chief Operating Officer or Chief Financial Officer.

5. From time to time, employees may entertain public officials to the extent permitted by law, but only if the entertainment is not solicited by the public

official, the entertainment occurs infrequently and it arises out of the ordinary course of business. Supervisory approval must be obtained prior to arranging the entertainment. The entertainment must not involve lavish expenditures under the circumstances, and the settings and types of entertainment must be reasonable, appropriate and fitting to our employees, their guests, and the business at hand. In uncertain situations, the Legal Department should be consulted prior to arranging the entertainment.

I. POLITICAL ACTIVITIES AND CONTRIBUTIONS

The HCR Employees Good Citizenship Fund has been established for the purpose of enabling our employees conveniently to make political contributions to the extent permitted by law. Contributions to the fund are completely voluntary. When prohibited by law, employees shall not use Company funds for contributions of any kind to any political party, political action committee, or any candidate for any office of any national, state or local government. When Company funds lawfully may be used for political contributions all such contributions must be approved by senior officers.

The Company encourages individuals on their own behalf to become involved in political and civic affairs. Employees who participate in partisan political activities must make every effort to ensure they do not leave the impression that they speak or act for the Company. The Company will not infringe on the right of any employee to decide whether, to whom, and in what amount he or she will make personal political contributions. The same is true of volunteer political activity so long as it does not interfere with the employee's work for the Company.

J. PROPER ACCOUNTING AND CANDOR IN DEALING WITH AUDITORS

Compliance with accepted accounting rules and controls is expected at all times. The books of account, budget proposals, and economic evaluations for projects and the like must reflect the totality of the transactions they are intended to record. All appropriate assets and liabilities shall be recorded into the regular books of the Company. Employees are forbidden to use, authorize, or condone the use of "off the books" bookkeeping, secret accounts, unrecorded bank accounts, "slush" funds, falsified books, or any other devices that could be utilized to distort records or reports of the Company's true operating results and financial condition. The Company's Chief Financial Officer shall be consulted for advice on how to handle any uncertain matters.

K. COMPANY ASSETS

All employees are responsible for safeguarding Company assets. Each employee must ensure that Company expenditures are utilized for legitimate business purposes, with proper record keeping for all Company funds spent. Company assets must be used for Company business and not for the personal benefit of any individual.. Any suspected misuse of Company assets must be reported to your supervisor.

L. PATIENT TRUST FUNDS

In no case shall patient trust fund monies be used for any purpose other than those described in the patient trust fund policy of the Company. Patient trust funds are for the exclusive use of the patient and can be used only upon written approval of the patient or the patient's official guardian.

M. PETTY CASH AND VENDING MACHINE INCOME

Petty cash levels will be established by the Company. Petty cash shall not be used for cashing personal checks or off-setting deficits in other accounts.

Vending machine income shall be deposited only into the revenue account of the facility and shall not be used or spent for any purpose by facility personnel.

N. GOVERNMENT INVESTIGATIONS

The Company has a policy of cooperating with all government investigations. In addition, the Company expects all employees to also cooperate. In order to make certain that all government investigations and requests for information are handled in a coordinated and efficient manner, all government investigations and government requests for information should be reported immediately to your supervisor, the Legal Department or the Compliance Committee. (Routine government contact, such as state health department surveys and reimbursement audits, should be handled pursuant to normal Company policy.) When contacted by a government official or agent, whether such contact is during business hours or after business hours at home, an employee should request identification, obtain the agent's name and telephone number, and stress that the Company will cooperate and that an appropriate management employee will be in prompt contact. The employee should make certain to contact their supervisor or a member of the Compliance Committee as soon as possible.

O. COMPLIANCE WITH STANDARDS

1. Initial Distribution. Current employees designated to receive these Standards will receive their copies immediately after publication. Future employees designated to receive these Standards will receive their copies at the time they are hired.

2. Initial Verification. Upon receiving a copy of the Standards, current and future employees shall:

a. Become thoroughly familiar with the Standards;

b. Resolve any doubts or questions about the Standards with their supervisors; supervisors should consult with the Company's Legal Department on any activities or practices that might raise questions;

c. Inform their supervisors of any existing holdings or activities which might be, or appear to be, at variance with the Standards; employees shall cooperate in implementing appropriate corrective action which shall be approved by the supervisor and the Legal Department if necessary.

d. Prepare written disclosures of such information, if requested by supervisors;

e. Sign the verification form and turn it in to their supervisors who will make it a part of each employee's permanent record.

3. Maintaining Compliance. Employees have the responsibility of understanding all of the Standards and complying with them. Supervisors have the responsibility of maintaining an awareness on the part of their employees of the importance of complying with the Standards. Employees and supervisors will be asked periodically to confirm their understanding of the Standards and their compliance with them.

P. VIOLATIONS OF STANDARDS

Employees have the obligation to report violations of the Standards that they observe or that are made known to them. Failure to do so can have serious consequences for the employees and the Company. Reports of violation should be made by employees to their supervisor, a Compliance Committee Officer or to the HCR Care Line (800) 366-1232. Reports can be made anonymously; however, employees should realize that anonymous reports may make it difficult (or in some cases impossible) to conduct an effective investigation. Employees may be requested to submit a written report setting forth the facts of the alleged violations. The Company shall endeavor to maintain the confidentiality of individuals reporting violations of these Standards, consistent with the Company's obligation to investigate violations and/or to report improper activity to the appropriate authorities. The Company will not tolerate any form of retaliation or discrimination against any individual reporting violations of the Standards.

Any employee who reports a violation that has not been properly addressed by his supervisor should contact a member of the Company's Compliance Committee. The members of the Committee are: Barry Lazarus, Spencer Moler and Joyce Smith.

Supervisors who receive a report of a serious violation of these Standards should notify a member of the Compliance Committee. Management has the right to determine what disciplinary action will be taken for a violation, ranging from an oral reprimand to termination. Proposed disciplinary action is subject to review by senior management. Employees should be aware that, in addition to any disciplinary action taken by the Company, violations of some Standards may require restitution and may lead to civil or criminal action against individual employees.

(Dated 11/98)

HCR MANOR CARE, INC.

VERIFICATION OF RECEIPT AND UNDERSTANDING

As of this date, I have received a copy of the HCR Manor Care Standards of Business Conduct. I understand how the Standards apply to me and acknowledge my obligations to follow them. Any conflicts of interest or other matters for which the Standards require written disclosure to the Company have been so disclosed by me.

Date: _____ Name: _____
(Please Print)

_____ _____
Department Signature